

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue and lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, and San Jose Redevelopment Agency debt.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its related entities with a maturity of 270 days or less. Maturing commercial paper notes are repaid from the proceeds of sale of new commercial paper notes or bonds, or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately-owned properties benefited by the improvements for which the bonds were issued.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts. The source of repayment for community facilities district bonds is a special tax on privately-owned properties within the community facilities districts.
- **San Jose Redevelopment Agency debt** is issued to finance redevelopment activities within, or of benefit to, the Agency's Merged Area Redevelopment Project in accordance with California Community Redevelopment Law. The principal source of repayment for San Jose Redevelopment Agency debt is future property tax increment revenues.

The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, the City Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for General Obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional voter authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, motor vehicle transportation services (other than airport service), telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2010, the total assessed value of taxable property was \$127.1 billion, which results in a total debt limit capacity of approximately \$19.1 billion. As of June 30, 2010, the City had \$499.97 million of General Obligation bonds outstanding which represents 2.6% of the debt limit.

As shown in Table A below, the City and related entities had additions in long-term debt of \$160.6 million and repayments of \$184.3 million in 2010 resulting in a total long-term debt balance of \$4.8 billion as of June 30, 2010. Table B below summarizes the City and related entities' long-term debt by issuance and maturity, as well as short-term commercial paper notes for a combined outstanding debt balance of \$5.27 billion as of June 30, 2010. It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution. Table C below summarizes the City and related entities' annual requirements to amortize principal and pay interest due on all long-term debt outstanding for each of the next five fiscal years and thereafter.

The Debt Management Policy (Council Policy 1-15) for the City was adopted by the City Council on May 21, 2002, and is affirmed annually by the City Council. The first set of program-specific

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

policies, related to the City's Multi-Family Housing Program, was adopted by the City Council on June 11, 2002, and subsequently amended on December 6, 2005.

Descriptions of City of San José and related entity debt activity for 2009-2010, as well as issues planned for 2010-2011, are provided in the following sections.

2009-2010 Debt Issues

The following debt issues were completed in 2009-2010.

- **Redevelopment Agency of the City of San José Housing Set-Aside Tax Allocation Bonds, Series 2010A, Series 2010B and 2010C** On April 28, 2010, the City issued three series of housing set-aside tax allocation bonds totaling \$160.4 million (see Table A). The proceeds of the Series 2010A (tax-exempt) and Series 2010B (taxable) bonds were used to refinance the outstanding Series 2005C and Series 2005D Housing Set-Aside Tax Allocation Bonds and cash fund the Reserve Fund. The bond proceeds of the 2010C (variable rate taxable) bonds will be used to repay an existing term loan with the Bank of New York and make \$40 million of housing set-aside funds available for a loan to the San Jose Redevelopment Agency to pay the Agency's State mandated Supplemental ERAF obligation and fund housing projects.
- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received the following allocation from the California Debt Limit Allocation Committee (CDLAC) and closed the following project while complying with CDLAC regulations:

Allocations awarded on July 22, 2009, resulting in bond issuance in 2009:

- Brookwood Terrace Family Apartments (\$14.0 million); closed December 23, 2009

Allocations awarded on September 23, 2009, resulting in bond issuance in 2010:

- North Fourth Street Family Apartments (\$23.0 million); closed June 4, 2010

2010-2011 Planned and Completed Debt Issues

- **2010 Tax and Revenue Anticipation Note** The City issued a short-term note (the "2010 Note") for cash flow purposes to facilitate the prefunding of employer retirement contributions. The Initial Note Portion of \$40,000,000 was purchased by JPMorgan Chase Bank, N.A. on the closing date of the financing, July 1, 2010. At the City's discretion, additional borrowings may occur under the terms of the 2010 Note and the Note Purchase Agreement at any time up to the Commitment Termination Date of June 30, 2011 and up to the Unutilized Commitment amount of \$35,000,000. Security for repayment of the 2010 Note is a pledge of the City's 2010-2011 secured property tax revenues received on and after April 1, 2011 plus all other General Fund

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

2010-2011 Planned and Completed Debt Issues (Cont'd.)

2010 Tax and Revenue Anticipation Note (Cont'd.)

revenues legally available to the City, if required. The final maturity for the 2010 Note is June 30, 2011; however, staff anticipates that repayment of the 2010 Note will begin in January 2011, after the first half of secured property tax revenues is received from the County Auditor-Controller and General Fund cash balances begin to rise.

- **City of San José General Obligation Bonds, Series 2010 (Libraries and Public Safety Projects)** The City anticipates issuing approximately \$9.23 million of Series 2010 General Obligation Bonds in Fall 2010. The proceeds will be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002. Debt service on the Series 2010 Bonds will be payable from *ad valorem* taxes levied upon all property subject to taxation by the City.
- **City of San José Convention Center Facilities District No. 2008-1 Special Tax Bonds, Series 2010** Subject to court validation of the special tax, the City anticipates issuing approximately \$100 million of special tax bonds to finance a portion of the Convention Center renovation and expansion project. The bonds will be secured by special tax revenues paid by the owners of taxable parcels in Convention Center Facilities District No. 2008-1.
- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City has received or applied for the following allocations from the California Debt Limit Allocation Committee (CDLAC):

Allocations awarded on March 24, 2010, resulting in bond issuance in 2010:

- Orvieto Family Apartments (\$16.5 million); closed July 20, 2010

Allocations awarded on September 23, 2009, resulting in expected bond issuance in 2010:

- Kings Crossing Apartments (\$25.4 million); estimated closing September 2010

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2010
(In Thousands of Dollars)

	Balance July 1, 2009	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2010
GENERAL LONG TERM DEBT				
General Obligation Bonds	\$ 519,320	\$ -	\$ 19,350	\$ 499,970
HUD Section 108 Loan	23,923	-	1,008	22,915
Special Assessment Bonds with Limited Governmental Commitment	64,886	-	3,981	60,905
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	2,907	146	810	2,243
Lease Revenue Bonds, Series 1997B	1,560	-	395	1,165
Lease Revenue Bonds, Series 2001E	4,040	-	4,040	-
Lease Revenue Bonds, Series 2001F	153,310	-	7,415	145,895
Lease Revenue Bonds, Series 2002B	291,980	-	160	291,820
Lease Revenue Bonds, Series 2003A	18,400	-	935	17,465
Lease Revenue Bonds, Series 2006A	57,440	-	-	57,440
Lease Revenue Bonds, Series 2007A	34,340	-	905	33,435
Lease Revenue Bonds, Series 2008A	56,920	-	-	56,920
Lease Revenue Bonds, Series 2008B	35,975	-	695	35,280
Lease Revenue Bonds, Series 2008C	10,915	-	-	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	46,380	-	1,300	45,080
Lease Revenue Bonds, Series 2008E (Taxable)	27,085	-	1,060	26,025
Lease Revenue Bonds, Series 2008F (Taxable)	67,195	-	-	67,195
Revenue Bonds, Series 2001A	39,740	-	1,485	38,255
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	194,755	67,405	5,315	256,845
Housing Tax Allocation Bonds (Subordinate)	58,515	93,000	58,515	93,000
Redevelopment Tax Allocation Bonds	1,802,235	-	44,505	1,757,730
Redevelopment Tax Allocation Bonds (Sub.)	108,200	-	8,200	100,000
HUD Section 108 Loans	33,955	-	955	33,000
CSCDA ERAF Loans	23,980	-	3,245	20,735
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	1,049,635	-	11,645	1,037,990
Sewer Revenue Bonds/State Revolving Fund Loan	100,939	-	8,407	92,532
TOTAL	\$ 4,828,530	\$ 160,551	\$ 184,326	\$ 4,804,755

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2010 by Individual Issue

	Due To	Effective	(\$ Thousands)
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.75-5.125%	\$ 52,040
General Obligation Bonds, Series 2002	2032	4.0-5.0%	89,000
General Obligation Bonds, Series 2004	2034	4.0-5.0%	98,925
General Obligation Bonds, Series 2005	2035	3.0-7.5%	40,140
General Obligation Bonds, Series 2006	2036	4.0-5.0%	94,870
General Obligation Bonds, Series 2007	2037	4.0-8.0%	84,000
General Obligation Bonds, Series 2008	2038	4.0-5.0%	31,995
General Obligation Bonds, Series 2009	2039	4.0-6.0%	9,000
HUD Section 108 Loan	2024	Variable Rate	22,915
Total City of San José			<u><u>\$ 522,885</u></u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	3.50-8.50%	<u><u>\$ 60,905</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2012	5.90-6.00%	\$ 2,243
Lease Revenue Bonds, Series 1997B	2012	4.75-4.875%	1,165
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	145,895
Lease Revenue Bonds, Series 2002B	2037	3.75-5.25%	291,820
Lease Revenue Bonds, Series 2003A	2023	3.10-4.70%	17,465
Lease Revenue Bonds, Series 2006A	2039	4.00-5.00%	57,440
Lease Revenue Bonds, Series 2007A	2030	4.125-4.75%	33,435
Lease Revenue Bonds, Series 2008A	2039	Variable Rate	56,920
Lease Revenue Bonds, Series 2008B	2039	Variable Rate	35,280
Lease Revenue Bonds, Series 2008C	2027	Variable Rate	10,915
Lease Revenue Bonds, Series 2008D (Taxable)	2025	Variable Rate	45,080
Lease Revenue Bonds, Series 2008E (Taxable)	2025	Variable Rate	26,025
Lease Revenue Bonds, Series 2008F (Taxable)	2034	Variable Rate	67,195
Revenue Bonds, Series 2001A	2026	3.90-5.25%	38,255
Commercial Paper Notes	Short Term	Various	53,530
Total City of San José Financing Authority			<u><u>\$ 882,663</u></u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	3.00-5.85%	\$ 256,845
Housing Tax Allocation Bonds (Sub.)	2035	Variable Rate	93,000
Redevelopment Tax Allocation Bonds	2036	2.80-7.00%	1,757,730
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	100,000
HUD Section 108 Loans	2025	Variable Rate	33,000
CSCDA ERAF Loans	2016	4.59-5.67%	20,735
Total Redevelopment Agency			<u><u>\$ 2,261,310</u></u>

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2010 by Individual Issue
(Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Refunding Bonds, Series 1998A	2018	4.50-4.75%	\$ 7,290
Revenue Bonds, Series 2001A	2031	4.00-5.25%	135,160
Revenue Refunding Bonds, Series 2002A	2018	4.776-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	4.679-5.00%	8,925
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	73,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Revenue Bonds, Series 2007A (AMT)	2047	5.00-6.00%	545,755
Revenue Bonds, Series 2007B	2037	4.25-5.00%	179,260
Commercial Paper Notes	Short Term	Various	417,348
San José-Santa Clara Clean Water Financing Authority:			
Revenue Refunding Bonds, Series 2005A	2016	3.25-5.00%	36,625
Revenue Refunding Bonds, Series 2009A	2020	3.00-4.626%	21,420
State of California Revolving Loan	2019	Various	34,487
Total Enterprise Funds			<u>\$ 1,547,870</u>
GRAND TOTAL			<u><u>\$ 5,275,633</u></u>

CITY OF SAN JOSE
2010-2011 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize Principal and Interest Due on All Long-Term
Debt Outstanding as of June 30, 2010*
(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment Bonds	City of San José Financing Authority	Redevelopment Agency	Enterprise Funds
2011	\$ 44,117	\$ 6,714	\$ 51,761	\$ 172,040	\$ 76,918
2012	44,104	6,670	59,424	174,518	76,841
2013	43,225	6,626	60,175	174,217	76,787
2014	42,330	6,571	60,032	174,342	84,762
2015	41,456	6,517	60,563	174,153	84,680
Thereafter	625,292	58,102	1,161,761	2,847,957	1,770,515
Total	\$ 840,524	\$ 91,200	\$ 1,453,716	\$ 3,717,227	\$ 2,170,503

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Subject to AMT	Fully Taxable
2010-2011	2.85%	2.85%	2.90%
Thereafter	4.20%	4.20%	5.30%

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